

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7120**

**BILL NUMBER:** HB 1456

**NOTE PREPARED:** Jan 13, 2013

**BILL AMENDED:**

**SUBJECT:** New Employee Tax Credit.

**FIRST AUTHOR:** Rep. Hale

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** The bill provides a tax credit against state tax liability each taxable year for a small business that hires a veteran, an individual who is at least 50 years of age, or an individual who has been totally unemployed for each of the 26 weeks preceding the hiring date. It specifies that the amount of the credit is \$1,000 for each qualified individual the employer hires during the taxable year.

**Effective Date:** January 1, 2013 (retroactive).

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax credit.

**Explanation of State Revenues:** *Summary -* The bill provides a credit to small businesses that hire a veteran, a person at least 50 years old, or a person who has been totally unemployed for 26 weeks. The credit is effective beginning in tax year 2013, so the revenue impact will likely begin FY2014. The tax credit could potentially reduce state General Fund revenue by an estimated \$78.8 M and \$83.7 M per year beginning in FY 2014. This estimate is based on a simulation using 2011 and 2012 Quarterly Census of Employment and Wages data for firms that were in existence in the first quarter 2012.

The credit equals \$1,000 per qualifying employee hired during the taxable year by a business with less 150 employees. The credit can be used to offset tax liabilities from the Individual Adjusted Gross Income Tax, Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. Revenue collected from those taxes is deposited in the state General Fund. The credit is nonrefundable, but unused

credits may be carried forward for up to 9 years. Unused credits may not be carried back.

The revenue loss estimates are based on a simulation performed using an extract of Quarterly Census of Employment and Wages reports filed for purposes of unemployment compensation taxes. The extract is comprised of firms that had employees in January 2012 and each firm's reported wages and employment levels during 2011 and the first quarter of 2012. Each firm was evaluated using the criteria for a qualifying employer. This analysis yielded 102,695 small business firms that hired about 246,000 people in 2011.

The bill stipulates that the credit can only be awarded if the new employee has received unemployment benefits for over 26 weeks, is a veteran, or is at least 50 years old. Using information from the Bureau of Labor Statistics (BLS), the probability that a new hire received unemployment benefits for over 26 weeks was estimated to be 16.0%. This statistic was derived from the Job Openings and Labor Turnover data from 2011 and a BLS Employment Situation update. The U.S. Department of Labor reports that veterans comprise 7% of the national workforce, and a Wyoming study found that 12.2% of new hires are at least 50 years old. Applying those statistics and adjusting for the interactions, the total revenue loss for only qualifying employees is estimated to be approximately \$78.4 M.

The lower and upper range of the estimated revenue loss is based on the estimated response of new hiring to the reduction in the wage cost from the tax credit. The employment response is estimated to range from a 1% to 5% increase in employment for a 10% reduction in wage cost.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** LSA Unemployment Payroll Reporting Database; BLS, *Job Openings and Labor Turnover Reports*, 2002-2012; BLS, *Unemployed Persons by Duration of Unemployment*, January 4, 2013; U.S. Department of Labor, *The Veteran Labor Force in the Recovery*, November 2011; Sasser, Alicia, *New England Public Policy Center: The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, January 2006; Wyoming Department of Workforce Services, *Examining the Demographics of New Hires*, August 2012.

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